

IPART – Review of the Local Government Rating System

1. Do you agree with our proposed tax principles? If not, why?

Response:

- Agree with the proposed tax principles. However, the issue is whether local government in small rural/ regional areas can generate enough income by tax to sustain itself.
- Also the concept of competitive neutrality is good but it does not hold in these areas where Councils' are the sole providers of the basic services.

2. What valuation method should be used as the basis for determining the ad-valorem amounts in Council rates? Should Councils be given more choice in selecting a valuation method, as occurs in other states, or should a valuation method continue to be mandated?

Response:

- Each valuation method has its own pros & cons depending on the Council area where it is used. For example, Capital Improved Valuation would be an effective method to be used in urban/ city councils which have a high density of population within a small area. This would also address their issue of rating high rise buildings in a fair manner. It would also represent the growth in the property valuation which is generally higher in these areas.
- However, this method would not be suitable for rural/regional councils due to the fact that the return on property investment is not as high as compared to the city councils. Also, it might deter the big land owners to make necessary capital improvements for the fear of paying higher rates.
- Another factor to be considered is that the cost of sourcing the Capital Improved Valuation will be quite high and whether the NSW Valuer General has the capacity to provide these valuations to councils. If not, then councils might have to hire valuers or seek the services of private valuers which would be quite high and might not be affordable.
- Individual councils should be allowed to choose their own method of valuation as it occurs in Victoria, South Australia and Tasmania. This way each council can decide on what is the best valuation method which fulfils their needs.

3. Should Councils be required to use the Valuer General's property valuation services, or should they also be able to use a private valuation firm (as occurs in Victoria and Tasmania)?

Response:

- Councils should be given the right to decide whether to use the services of NSW Valuer General's office or to source the valuations themselves. This would probably depend on the type of valuation the council has decided to use to levy the rates.

4. What changes (if any) should be made to the Local Government Act to improve the use of base and minimum amounts as part of the overall rating structure?

Response:

- Base amounts are an efficient way to recover fixed costs that Councils' incur in supplying infrastructure and services that benefit all ratepayers. These are also simple to calculate. In areas where values are quite low but fluctuate by up to 100% a higher base rate of say 70% would assist in making rates more equitable. For example a residential land valuation in a country town can vary significantly from one part of town to another with one lot valued at \$10,000 and another \$20,000 – both have access to the same services but rates vary substantially. A higher base rate could flatten out the inequity.
- It should therefore be up to the individual council to determine how high they want to set up the base rate for a given category i.e. councils should factor in the land valuation in given categories and determine the effect of setting up a high base rate and the effect it might have on a lower value property.

5. What changes could be made to the rating categories? Should further rating categories or sub-categories be introduced? What benefits would this provide?

Response:

- There should be the option to introduce further sub categories within the major categories such as separate classification of vacant land etc. under the residential category.
- As suggested the definition of Business category should be reviewed as it is quite broad. Especially if the land is vacant and can't be classified as either Farmland or Mining. There should be some clear rules specified as to when a property can be classified as Business.
- Mining rates should be excluded from the Notional Yield due to their volatility and impact on other rating categories especially when a mine closes. If kept separate from rate pegging then impacts on other rate categories would be minimal. This was also suggested in the Independent Local Government Review Panel Report

6. What changes could be made to the current rate pegging arrangements to improve the rating system, and, in particular, to better streamline the special variation process?

Response:

- The Independent Local Government Review Panel recommendation of allowing councils to increase rates by a margin of 2% - 3% above the rate peg cap without applying for a Special Rate Variation to IPART has merit and should be investigated further.
- It is politically unlikely that either major party will eliminate rate pegging in NSW.

7. What changes could be made to the rating system to improve councils' management of overdue rates?

Response:

- Councils should be given authority to write off the rates under special circumstances or make small parcels of unsaleable land non-rateable.
- Reduce the time frame for sale of land for unpaid rates currently from 5 years to 3 years.
- Councils' should be able to undertake debt recovery and set up a minimum threshold to initiate the legal proceedings to recover the unpaid rates. Usually this is covered in the Council's debt recovery policy.

8. Are the land uses currently exempt from paying council rates appropriate? If a current exemption should be changed, how should it be changed? For example, should it be removed or more narrowly defined, should the level of government responsible for providing the exemption be changed, or should councils be given discretion over the level of exemption?

Response:

- The current exempt land uses are not appropriate, especially the ones that claim an exemption as Community Housing or Charity.
- It may be appropriate to remove the exemptions and replace them with rebates that result on partial reduction in the rates. The rebate system will provide mechanism to give varying levels of rate relief based on the benefit provided to the community rather than the "all or nothing" approach under the current exemptions.
- There should be a mechanism for state and local governments to share the costs in granting rate relief.

9. What should the objectives of the pensioner concession scheme be? How could the current pensioner concession scheme be improved?

Response:

- The current pension system is not effective for local government and reduces the economic efficiency of the councils. This is mainly due to the fact that 45% of the cost of concession has to be borne by the Council and reduces the rate base.
- To improve the current system, the pension concession provided should be increased and indexed appropriately as it has not changed since 1993. However, the cost of concession should be borne by the either the State or Federal government and not by councils as is the case in other states.